

**REPORT OF THE AUDITOR-GENERAL TO THE WESTERN CAPE PROVINCIAL
PARLIAMENT AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE KNYSNA MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2008**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Knysna Municipality which comprise the statement of financial position as at 30 June 2008, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1, and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3)(a) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
- appropriateness of accounting policies used
 - reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
7. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Knysna Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of the Knysna Municipality as at 30 June 2008 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1, and in the manner required by the MFMA and DoRA.

Emphasis of matters

Without qualifying my audit opinion, I draw attention to the following matters:

Amendments to the applicable basis of accounting

11. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 522 of 2007*, issued in *Government Gazette 30013 of 29 June 2007*.

Unauthorised expenditure

12. As disclosed in note 41.1 to the financial statements, unauthorised expenditure totalling R8 419 916 was incurred as a result of over-expenditure on the approved budget. The unauthorised expenditure was approved by council on 31 July 2008.

OTHER MATTERS

Without qualifying my audit opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Matters of governance

13. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	■	
• The audit committee operates in accordance with approved, written terms of reference.	■	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	■	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	■	
• The internal audit function operates in terms of an approved internal audit plan.	■	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	■	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	■	
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		■
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.	■	
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.	■	

Matter of governance	Yes	No
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 	■	
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 	■	
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 	■	
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 	■	

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the annual financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

15. I have reviewed the performance information as set out on pages xx to xx.

Responsibility of the accounting officer for the performance information

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
18. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings (performance information)

Non-compliance with regulatory requirements

Content of the integrated development plan

20. The cost, resources and time used to produce outputs in accordance with the input indicators for each of the development priorities and objectives referred to in section 26(c) of the MSA were not determined, as required by section 13(3) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, issued in *GNR.796 of 24 August 2001*.
21. Key performance indicators were not set for all employees and service providers, as required by section 9(2)(b) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, issued in *GNR.796 of 24 August 2001*.
22. The performance targets set by the municipality were not in all instances practical and realistic, as required by section 12(2) of the Local Government: Municipal Planning and Performance Management Regulations, 2001, issued in *GNR.796 of 24 August 2001* and measurable, as required by section 41(1)(b) of the MSA. The key performance indicators and performance targets were also not made known to the general public, as required by section 44 of the MSA.
23. The municipality's performance management system does not indicate that key performance indicators must be reviewed annually as part of the performance review process and whenever the municipality amends its integrated development plan, as required by section 11 of the Local Government: Municipal Planning and Performance Management Regulations, 2001, issued in *GNR.796 of 24 August 2001*.

Content of the performance report

24. The annual performance report does not disclose measures that were, or are to be, taken to improve performance, as required by section 46(1)(a)(iii) of the MSA.

Lack of sufficient appropriate audit evidence

25. The following actual achievement of indicators could not be substantiated by sufficient appropriate evidence:

Key performance indicator	Unit of measurement	Target 2007-08	Actual 2007-08
Ensure that a significant number of youth and woman receive relevant training	Number of youth trained	60	159
	Number of women trained	60	74
Roads infrastructure – to develop and maintain the roads infrastructure of Knysna	<ul style="list-style-type: none"> Pavement management system with priorities for current financial year updated and approved Actual expenditure of CAPEX and OPEX budgets SDBIP targets met Projects completed according to specifications/ standards and signed off by director: Technical Services 	Total operating cost of road construction and maintenance function: Accumulated – 2 280	2 028
Sewerage infrastructure – to develop and maintain the sewerage infrastructure of Knysna	<ul style="list-style-type: none"> Formal maintenance programme adopted and monitored Budget expenditure programme submitted to municipal manager Actual expenditure of CAPEX and OPEX budgets 	Formal maintenance programme – sewerage	–

26. A comprehensive, integrated performance management system to ensure that performance information is valid, accurate and complete has not yet been implemented by the municipality.

APPRECIATION

27. The assistance rendered by the staff of the Knysna Municipality during the audit is sincerely appreciated.

Auditor-General

Cape Town

30 November 2008



A U D I T O R - G E N E R A L